

**REPORT OF THE AUDIT OF THE  
PIKE COUNTY  
SHERIFF**

**For The Year Ended  
December 31, 2001**



**EDWARD B. HATCHETT, JR.**  
**AUDITOR OF PUBLIC ACCOUNTS**  
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EDWARD B. HATCHETT, JR.  
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
T. Kevin Flanery, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Karen Gibson, CPA, Pike County Judge/Executive  
Honorable Charles Keese, Pike County Sheriff  
Members of the Pike County Fiscal Court

The enclosed report prepared by Berger & Ross, PLLC, Certified Public Accountants, presents the statement of receipts, disbursements, and excess fees of the Sheriff of Pike County, Kentucky, for the year ended December 31, 2001.

We engaged Berger & Ross, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Berger & Ross, PLLC, evaluated the Pike County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett".

Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Enclosure





**AUDIT EXAMINATION OF THE  
PIKE COUNTY SHERIFF**

**Calendar Year 2001**

**Berger & Ross, PLLC**  
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## **EXECUTIVE SUMMARY**

### **AUDIT EXAMINATION OF THE PIKE COUNTY SHERIFF**

**Calendar Year 2001**

Berger & Ross, PLLC, has completed the audit of the Pike County Sheriff for calendar year 2001. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

#### **Financial Condition:**

The 75% fund account balance decreased by \$85,695 from the prior calendar year, resulting in a cash deficit of \$34,070. As of December 31, 2001, revenues decreased by \$374,498 from the prior year and disbursements decreased by \$67,275.

The 25% fund account balance revenues decreased by \$49,337 from the prior year and disbursements decreased by \$49,337. The fund balance is \$118,164 as of December 31, 2001.

#### **Report Comments:**

- The Sheriff Should Deposit Net Receipts For The Return Of Fugitives Into The Fee Account
- Lacks Adequate Segregation Of Duties

#### **Deposits:**

The Sheriff's deposits were insured and collateralized by bank securities or bonds and were covered by a written agreement.

#### **Subsequent Events:**

The Sheriff has changed the method by which he accounts for travel. Beginning in calendar year 2002, net receipts for the return of fugitives will be deposited into the fee account





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Member  
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Association of Professional Accountants (APAs)  
National Association of Public Accountants (NAPAs)  
Kentucky Association of Certified Public Accountants (KYCPAs)  
Kentucky Association of Tax Preparators (KYATPs)

To the People of Kentucky  
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Honorable Charles E. Keesee, Pike County Sheriff  
Members of the Pike County Fiscal Court

#### Independent Auditor's Report

We have audited the accompanying statement of receipts and disbursements, of the County Sheriff of Pike County, Kentucky, and the statement of receipts, disbursements, and fund balances of the County Sheriff's operating fund and county fund with the State Treasurer for the year ended December 31, 2001. These financial statements are the responsibility of the Pike County Sheriff. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the County Sheriff prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the receipts and disbursement of the County Sheriff and the receipts, disbursements, and fund balances of the County Sheriff's operating fund and county fund with the State Treasurer for the year ended December 31, 2001, in conformity with the modified cash basis of accounting.

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
T. Kevin Flanery, Secretary  
Finance and Administration Cabinet  
Dana Mayton, Secretary, Revenue Cabinet  
Honorable Karen F. Gibson, Pike County Judge/Executive  
Honorable Charles E. Keesee, Pike County Sheriff  
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In accordance with Government Auditing Standards, we have also issued our report dated August 8, 2002, on our consideration of the County Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit

Based on the results of our audit, we have presented the accompanying comments and recommendations, included herein, which discusses the following report comments:

- The Sheriff Should Deposit Net Receipts For The Return Of Fugitives Into The Fee Account
- The Sheriff Has A Lack Of Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Berger & Ross", with a long horizontal flourish extending to the right.

Berger & Ross, PLLC

Audit fieldwork completed -  
August 8, 2002

PIKE COUNTY  
CHARLES E. KEESE, SHERIFF  
STATEMENT OF RECEIPTS AND DISBURSEMENTS

Calendar Year 2001

Receipts

Federal Payments:		
Lake Patrol		\$ 36,654
State Fees For Services:		
Finance And Administrative Cabinet	\$ 107,594	
KLEFPF Grant	60,879	
Return of Fugitives	<u>7,728</u>	176,201
Circuit Court Clerk:		
Security Fees	\$ 6,546	
Arrest Fees	<u>610</u>	7,156
Fiscal Court:		
Sheriff's Supplement	\$ 240,249	
Dare Supplement	<u>7,500</u>	247,749
County Clerk:		
Delinquent Taxes		26,487
Commission on Taxes Collected		479,194
Sheriff's Fee on Taxes Collected:		
10% Additional Fee	\$ 83,852	
Advertising Fee	<u>1,754</u>	85,606
Fees Collected for Services:		
Auto Inspections	\$ 14,169	
Accident/Police Reports	176	
Carrying Concealed Deadly Weapon Permits	12,336	
Serving Papers	44,117	
Executions	8,650	
Transporting Prisoners and Patients	14,158	
Security Services Reimbursements	80,623	
Refunds	2,249	
Reimbursements	4,160	
Sequester Jurors Reimbursement	767	
Correction of Bank Error	295	
Dare Donations	1,425	
Miscellaneous	<u>472</u>	183,597
Interest Earned		<u>2,178</u>
Gross Receipts (Carried Forward)		\$ 1,244,822

The accompanying notes are an integral part of the financial statements.

PIKE COUNTY  
 CHARLES E. KEESEE, SHERIFF  
 STATEMENT OF RECEIPTS AND DISBURSEMENTS  
 Calendar Year 2001  
 (Continued)

Gross Receipts (Brought Forward)		\$	1,244,822
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Disbursements

Other Disbursements:

Executions	\$	8,650
Sequestered Jurors		767
Refund		170
Travel Reimbursements		<u>7,728</u>

Total Allowable Disbursements		<u>17,315</u>
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Net Receipts	\$	1,227,507
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Payments to State Treasurer:

75% Operating Fund*	\$	1,061,006	
25% County Fund		<u>166,376</u>	<u>1,227,382</u>

Balance Due at Completion of Audit		<u>\$</u>	<u>125</u>
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\*Includes reimbursed expenses in the amount of \$561,868 for the audit period. See Note 1 of Notes to the Financial Statement.

PIKE COUNTY  
 CHARLES E. KEESE, SHERIFF  
 STATEMENT OF RECEIPTS, DISBURSEMENTS, AND  
 FUND BALANCES OF THE SHERIFF'S OPERATING FUND AND  
COUNTY FUND WITH THE STATE TREASURER

Calendar Year 2001

	75% Operating Fund	25% County Fund	Totals
Fund Balance - January 1, 2001	\$ 51,625	\$ 118,164	\$ 169,789
<u>Receipts</u>			
Fees Paid to State- Operating Funds	1,061,006		1,061,006
Fees Paid to State- County Funds (25%)		166,376	166,376
Total Funds Available	\$ 1,112,631	\$ 284,540	\$ 1,397,171
<u>Disbursements</u>			
Pike County Fiscal Court	\$ -	\$ 166,376	\$ 166,376
Personal Services-			
Officials Statutory Maximum	78,822		78,822
Incentive Pay	2,812		2,812
Deputies' Salaries	666,807		664,118
Employees Benefits-			
Social Security	54,084		54,546
Retirement	49,242		49,970
Health Insurance	124,364		124,364
Operating Expenses	169,469		169,469
Capital Outlay-			
Vehicles	2,600		2,600
Total Disbursements	\$ 1,148,200	\$ 166,376	\$ 1,313,077
Fund Balance-December 31, 2001	\$ (35,569)	\$ 118,164	\$ 84,094

The accompanying notes are an integral part of the financial statements.

PIKE COUNTY  
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2001

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of receipts over disbursements to facilitate management control, accountability, and compliance with laws.

A Fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fee collected is deposited in a County Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and periodically paid to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

B. Basis of Accounting

The financial statements have been prepared on a modified cash basis of accounting, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this basis of accounting, certain receipts and certain expenditures are recognized as a result of accrual at December 31, 2001.

The Attorney General issued a letter which stated that some receipts of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are reported in the 75 percent fund.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by good faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).



PIKE COUNTY  
NOTES TO THE FINANCIAL STATEMENTS  
December 31, 2001  
(Continued)

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS) pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a multiple-employer public retirement system that covers all eligible full-time employees. Benefit contributions and provisions are established by statute. Non-hazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for non-hazardous employees was 7.17 percent for the first six months of the year and 6.41 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for non-hazardous employees. Aspects of benefits for non-hazardous employees include retirement after 27 years of service or age 65.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is present in the Kentucky Retirement System's annual financial report which is a matter of public record.

Note 3. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of December 31, 2001, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provided surety bond which named the Sheriff as beneficiary/obligee on the bond.

Note 4. Health Insurance Premiums

KRS 61.405 allows county fee officials to purchase twelve (12) months of health insurance coverage for their employees, if excess fees are available. Therefore, the expenditures are allowable. The Attorney General has issued opinion 92-108, which claims the statute is unconstitutional and discriminatory. The Attorney General also issued OAG 94-11 on February 25, 1994, stating health or medical insurance provided uniquely for an official and not in connection with a government program providing benefits to all county employees would be personal in nature.

PIKE COUNTY  
NOTES TO THE FINANCIAL STATEMENT  
December 31, 2001  
(Continued)

Note 5. Forfeiture Fund

The Pike County Sheriff maintains an official bank account for monies obtained from seizure and sale of property used in illegal drug activities. The purpose of this fund is to purchase necessary equipment for operating the Sheriff's office. The balance of the drug forfeiture fund as of December 31, 2001, was \$3687.13.

Note 6. Carrying Concealed Deadly Weapon Permits

The Pike County Sheriff maintains an official bank account for receipts collected for Carrying Concealed Deadly Weapon Permits. The purpose of this fund is to distribute the appropriate fees to the Kentucky State Treasurer and the Sheriff's fee account for applications received. The balance as of December 31, 2001, was \$4,646.42.

## COMMENTS AND RECOMMENDATIONS



PIKE COUNTY  
CHARLES E. KEESEE, COUNTY SHERIFF  
COMMENTS AND RECOMMENDATIONS

Calendar Year 2001

STATE LAWS AND REGULATIONS:

1. The Sheriff Should Deposit Net Receipts For The return Of Fugitives Into The Fee Account

The Sheriff maintains a separate bank account for reimbursement from the state for the return of fugitives. After the Sheriff receives state reimbursement, deputies are reimbursed from the account for necessary expenses incurred while returning the fugitive. Any remaining amounts are then divided between the deputies who returned the fugitives. KRS 440.380 states "If, in attempting to reclaim the fugitive, the agent is acting within the course and scope of his employment, the amount due shall be paid over to the agent's employer instead of the agent." Therefore, all receipts should have been deposited into the Sheriff's fee account. The deputies are entitled to reimbursement for actual expenses but are not entitled to any remaining amounts. As a result of the Sheriff's procedures, the deputies have been overpaid. We recommend the Sheriff comply with KRS 440.380 by depositing receipts from state reimbursement into the fee account. Furthermore, we recommend the sheriff collect overpayment from the deputies.

*County Sheriff's Response:*

*This has been taken care of for 2002.*

2. Lacks Adequate Segregation Of Duties

We recognize the extent of segregation of duties is a judgement established by management. We also recognize this judgement is affected by certain circumstances beyond the elected official's control such as functions prescribed by statutes and regulations, and by budgetary constraints. Due to limited staff, a proper segregation of duties may be difficult, but compensating controls could mitigate the problem. The lack of adequate segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We believe this reportable condition as described above is a material weakness. We recommend the Sheriff establish a proper segregation of duties over his operations or implement some compensating controls.

*County Sheriff's Response:*

*Due to size of department, unable to comply.*

Prior Year:

- The Sheriff Should Deposit Net Receipts For The Return Of Fugitives Into The Fee Account

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REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS







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We are the IRS rescue and tax relief  
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Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statements Performed In Accordance With Government Auditing Standards

We have audited the statement of receipts, disbursements, and excess fees of the Pike County Sheriff for the year ended December 31, 2001, and have issued our report thereon dated August 8, 2002. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Pike County Sheriff's financial statements for the year ended December 31, 2001, is free of material misstatement, we performed tests of compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comments and recommendations.

- The Sheriff Should Deposit Net Receipts For The Return Of Fugitives Into The Fee Account

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Pike County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in the accompanying comments and recommendations.

- Lacks Adequate Segregation Of Duties

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statements Performed In Accordance With Government Auditing Standards  
(Continued)

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Berger & Ross", with a long horizontal flourish extending to the right.

Berger & Ross, PLLC

Audit fieldwork completed –  
August 8, 2002

